

Exhibit R

Annual Review 2008



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100 years
of operating
at the
frontiers



Meeting the energy demands
of today and tomorrow



Oil



Natural gas



Wind



Solar



Biofuels

BP Annual Review 2008

Group chief executive's review

Driving forward

Tony Hayward Group Chief Executive

24 February 2009

Highlights

- Progress with safe and reliable operations.
- Major projects delivered and revenues restored.
- Complexity and costs being reduced.

In a year that will be remembered for extremely volatile oil prices and exceptional stock market turbulence, BP delivered an excellent set of results. We made good progress on achieving safe and reliable operations, and delivered strong operational momentum that reduced the performance gap with our competitors.

During the year we benefited from record high oil prices. Replacement cost profit for the year was a record \$25.6 billion, with a return on average capital employed greater than 20%. We outperformed the FTSE 100 by 17% and our ADSs outperformed the S&P 500 index of large cap US by 2%.

Q At the start of the year what priorities did you set out for BP?

Safety, people and performance, and these remain our priorities. Our number one priority was to do everything possible to achieve safe, compliant and reliable operations.

Good policies and processes are essential but, ultimately, safety is about how people think and act. That's critical at the front line but it is also true for the entire group. Safety must inform every decision and every action. The BP operating management system (OMS) turns the principle of safe and reliable operations into reality by governing how every BP project, site, operation and facility is managed.

Our work on safety has been acknowledged inside and outside the group. For instance, the board's independent expert, L Duane Wilson, continues to report on our progress in implementing the improvements recommended by the BP US Refineries Independent Safety Review Panel and identify areas that need more focused attention. Our most recent employee survey indicated employees are also seeing the results of our work to enhance safety. Clearly, there is more to do and safety remains at the front of our minds. Beyond safety, we are also committed to high ethical standards and legal compliance in all aspects of our business. We have continued to enhance and improve compliance programmes in areas such as our integrated supply and trading function.

In last year's Annual Review I described the forward agenda we were pursuing to close the competitive gap by making BP a simpler and more efficient organization. Throughout 2008 we maintained our focus on reducing cost and complexity, and embedding a strong performance culture throughout the group. We achieved success on both counts. Layers of management have been removed, there is accountability for performance at all levels and we have created a strong focus on leadership behaviours.

Q How have these priorities affected your people?

First, I would like to thank our employees for the part they have played in turning around BP's performance. Their determination and commitment have been truly remarkable and we have come a long way in a short time. At the same time, we continue to provide excellent support for employees. From learning and development to diversity and inclusion, we are enabling people to achieve sustained high performance. Less complexity means we can now clearly identify top performers – both businesses and individuals – and reward them appropriately.

Q How did Exploration and Production perform?

It was an excellent year, with major projects such as Thunder Horse in the Gulf of Mexico and Deepwater Gunashli in Azerbaijan coming onstream. That, together with safe and reliable performance from our existing operations, contributed to underlying production growth – in contrast to the falling output of our major competitors – and more than compensated for the effects of Hurricanes Ike and Gustav and other operational issues. Rigorous cost control and efficiency offset the significant cost inflation that hit our sector. The start of production at Thunder Horse was an important milestone in terms of recovery and renewal. It was also a good year for exploration with major new discoveries in Algeria, Angola, Egypt and the Gulf of Mexico. We also gained new access to oil sands in Canada and shale gas in the US, as well as gaining licences to explore in the Canadian Arctic. 2008 was our 15th consecutive year of delivering reported reserves replacement of more than 100%.





November 2008

Tony Hayward discusses operating priorities with employees at the BP Carson refinery, California, US.

Q How far has Refining and Marketing addressed its most critical problems?

We made good progress on achieving safe, compliant and reliable operations. We improved refining availability on an annualized basis from 83% to 89% and restored full economic capability at the Texas City and Whiting refineries. In our fuels value chains we are achieving greater integration between refineries, terminals, pipelines and retail sites. The international businesses, which include lubricants, petrochemicals, aviation and marine fuels and liquefied petroleum gas, have performed well. We have also started to address overhead cost by reducing senior level headcount and by simplifying the marketing footprint. Now it's about driving greater consistency and efficiency through the business to capitalize on the leadership positions we enjoy in the most valuable markets.

Q How is BP responding to the twin challenges of energy security and climate change?

Our job is to help meet the world's energy needs today, invest in the next generation of energy sources and support the transition to a low-carbon economy. Alternative energy production is growing but currently represents just 2% of global energy production, so the world will need fossil fuels for years to come – even if demand slows – and we will play an important role by meeting this need while developing options for the future.

In 2008 we responded to these challenges by investing nearly \$22 billion^a in our businesses – an increase of 13% on 2007. Along with supporting our work on

exploration, appraisal, development and the turnaround in Refining and Marketing, we also invested \$1.4 billion in alternative forms of energy such as wind, solar, biofuels and carbon capture and storage (CCS). Looking ahead, on the issue of greenhouse gas (GHG) emissions, we believe legislation is required to ensure that a cost of carbon is included in the price of everything. This would enable companies such as BP to make even greater investments in low-carbon energy. We favour cap-and-trade as it provides environmental certainty based on an absolute emissions cap. A global system is the ultimate objective, but progress must be made at national and regional levels first.

Q It is getting tougher for BP and others to access new resources; do international oil companies really have a sustainable future?

International oil companies thrive at the frontiers of the energy industry taking on challenges others are either unwilling or unable to address. BP continues to agree significant new deals, from oil sands to the Beaufort Sea in Canada as well as making new discoveries in Algeria, Angola, Egypt and the Gulf of Mexico. We have also resolved the dispute with our TNK-BP joint venture partners in Russia.

We secure these agreements because we can build enduring relationships and have technical capabilities and experience distinct in our industry. Research and technology play a vital role here. By improving the efficiency of fossil fuel recovery and discovery, promoting fuel conversion and developing low-carbon alternatives, we are helping to provide affordable, sustainable energy for today and tomorrow.

Q What is the plan for Alternative Energy; what role will it play in BP's portfolio?

With both energy demand and carbon emissions rising, the world needs every sustainable, affordable energy source available. We invest a significant amount in alternative energy technology compared with our peers and, for us, the key question is which technologies will make the greatest contribution to meeting energy demand while providing BP with strong growth businesses. In 2008 we prioritized areas with significant long-term growth potential – wind, solar, biofuels and CCS – and directed the majority of our \$1.4 billion investment in the year to these areas.

Q Is BP entering its centenary year in good shape?

On the basis of our 2008 performance, I believe we can declare that 'BP is back'. Clearly, however, we must continue to adjust to market conditions. Oil and gas prices go up and down; our job is to ensure we can compete and thrive through every part of the cycle, something we've been doing for 100 years. Despite the challenges ahead, I am confident that we now have the positive momentum and flexibility required to achieve success as we begin our next century. ●

^a Excluding acquisitions and asset exchanges and excluding the accounting for our transactions with Husky Energy Inc. and Chesapeake Energy Corporation.



Speeches by Tony Hayward
bp.com/speeches

Exploration and Production

Exploration and Production delivered an excellent performance in 2008 driven by underlying production growth and strong cost management.

Highlights

- Replacement cost profit before interest and tax up 39%.
- Fifteenth consecutive year of reported reserves replacement of more than 100%.
- Thunder Horse and eight other major projects brought onstream.

BP's Exploration and Production business finds, produces and transports oil and gas to market. We operate in 29 countries and employ more than 20,000 people. Our strategy is to invest to grow production efficiently by:

- Focusing on accessing, finding and developing the largest fields in the world's most prolific hydrocarbon basins.
- Building leadership positions in these areas.
- Using technology to improve productivity and support new access.
- Managing the decline of existing producing assets.

Maintaining our focus on safety

Safety, both personal and process, remains our highest priority. 2008 was one of our best ever years for personal safety, with our performance expected to remain among the best in the industry. During the year we began migrating to the new BP OMS, which has an increased focus on process safety and continuous improvement. The majority of our operations in North America Gas, the Gulf of Mexico, Colombia and the Endicott field in Alaska all completed the migration to the OMS in 2008.

During the year Hurricanes Ike and Gustav caused disruption to our Gulf of Mexico operations. Ike was particularly destructive, but our teams responded rapidly, bringing all BP-operated production back online within 41 days of the storm passing.

Alaska
250 miles north of the Arctic Circle, our Endicott field was the world's first offshore Arctic oilfield.



E&P in more detail
bp.com/whatwedo

This was extraordinary given that more than 8,000 of our BP group employees were affected personally by hurricane damage. We supported employees through this time and provided more than \$17 million to assist with relief and recovery efforts for the wider community.

Our financial performance in 2008

We delivered a strong performance in 2008, with replacement cost profit before interest and tax of \$38 billion – a record for our business and a 39% increase compared with 2007. This result was primarily driven by higher oil and gas realizations, supported by strong underlying production growth of 5%^a and cost efficiency. In 2008 production from our established centres – including the North Sea, Alaska, North America Gas and Trinidad & Tobago – was on plan and we had production growth from nine new projects, including Thunder Horse in the Gulf of Mexico and Deepwater Gunashli in Azerbaijan.

^a Underlying production growth excludes the impact of lower entitlement in our production-sharing agreements, driven by higher oil and gas prices.

While higher oil and gas prices increased revenues they also drove activity growth in the oil and gas sector. This created higher demand for oil field goods and services, generating significant cost inflation. We were not immune from this but mitigated the impact of inflation through strong cost management and a focus on simplification and efficiency. We held production costs essentially flat from 2007 to 2008, significantly below the 20% annual cost growth between 2004 and 2007 and below sector inflation.

In 2008 we extended our track record of delivering reported reserves replacement of more than 100% by another year. We have a strong portfolio of assets and a clear strategy. Our focus on simplification and efficiency is removing unnecessary cost. We are well placed to respond quickly to changing market conditions and new opportunities.

Growing our resource base

Our oil and gas resource base provides the foundation for future growth. We continue to drive renewal through new access, exploration, targeted acquisitions and a renewed focus on increasing resources from fields we currently operate.

Each year we set out to replace more reserves of oil and gas than we produced in the previous 12 months. 2008 was the 15th consecutive year we achieved this, delivering reported reserves replacement of more than 100%.

In 2008 our exploration track record continued with one of our best years this decade for new discoveries. We were also successful in acquiring new resources – for example, the attractive gas shale resources from Chesapeake Energy Corporation – providing the potential for further growth of our North America Gas business.

Our ability to get more from fields is enormously valuable. By increasing the overall recovery rate by 1%, we believe we can add two billion boe to our reserves. To put that in context, when we started production at the Prudhoe Bay field in Alaska the recovery rate was expected to reach 40%. Using new technologies we have increased this to 60%. We now believe 70% is possible.

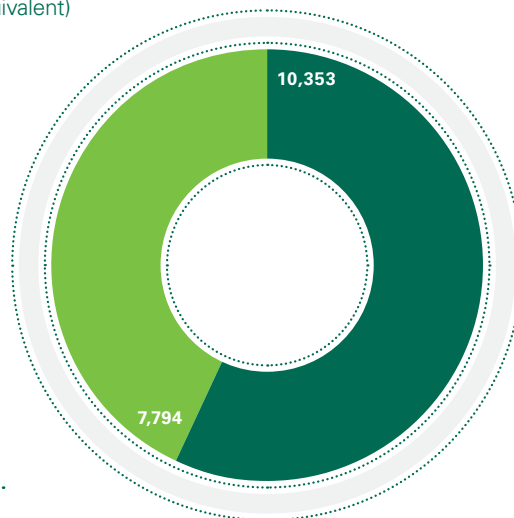
World-class start-ups

In 2008 we extended our track record of major project start-ups, with nine new major projects coming onstream. In the Gulf of Mexico production started at the Thunder Horse field (BP 75% and operator), with four wells in operation by the end of the year, producing around 200,000boe/d (gross). We are now the largest producer in the Gulf of Mexico.

In the Azerbaijan sector of the Caspian Sea we started oil production on our Deepwater Gunashli platform. Located in 175 metres of water, this platform completes the third phase of development of the Azeri-Chirag-Gunashli field.

Other significant successes in 2008 included the start of oil and gas production at the Saqqara and Taurt fields in Egypt. Taurt is a particularly important milestone – the first in a series of planned subsea developments in Egypt.

Total net proved reserves 2008^{b,c} (million barrels of oil equivalent)



● Liquids^d
● Natural gas

2008 was our 15th consecutive year of delivering reported reserves replacement of more than 100%.

^b Combined basis of subsidiaries and equity-accounted entities, on a basis consistent with general industry practice.

^c Under current SEC rules, BP's proved reserves estimates are based on prices and costs as of the date the estimate is made. There was a rapid and substantial decline in oil prices in the fourth quarter of 2008 that was not matched by a similar reduction in operating costs by the end of the year. BP does not expect that these economic conditions will continue. However, our 2008 reserves are calculated on the basis of operating activities that would be undertaken were year-end prices and costs to persist.

^d Crude oil, condensate and natural gas liquids.

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Sustainability Review

Read the summary *BP Sustainability Review 2008* in print or read more online from April 2009.
www.bp.com/sustainability

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